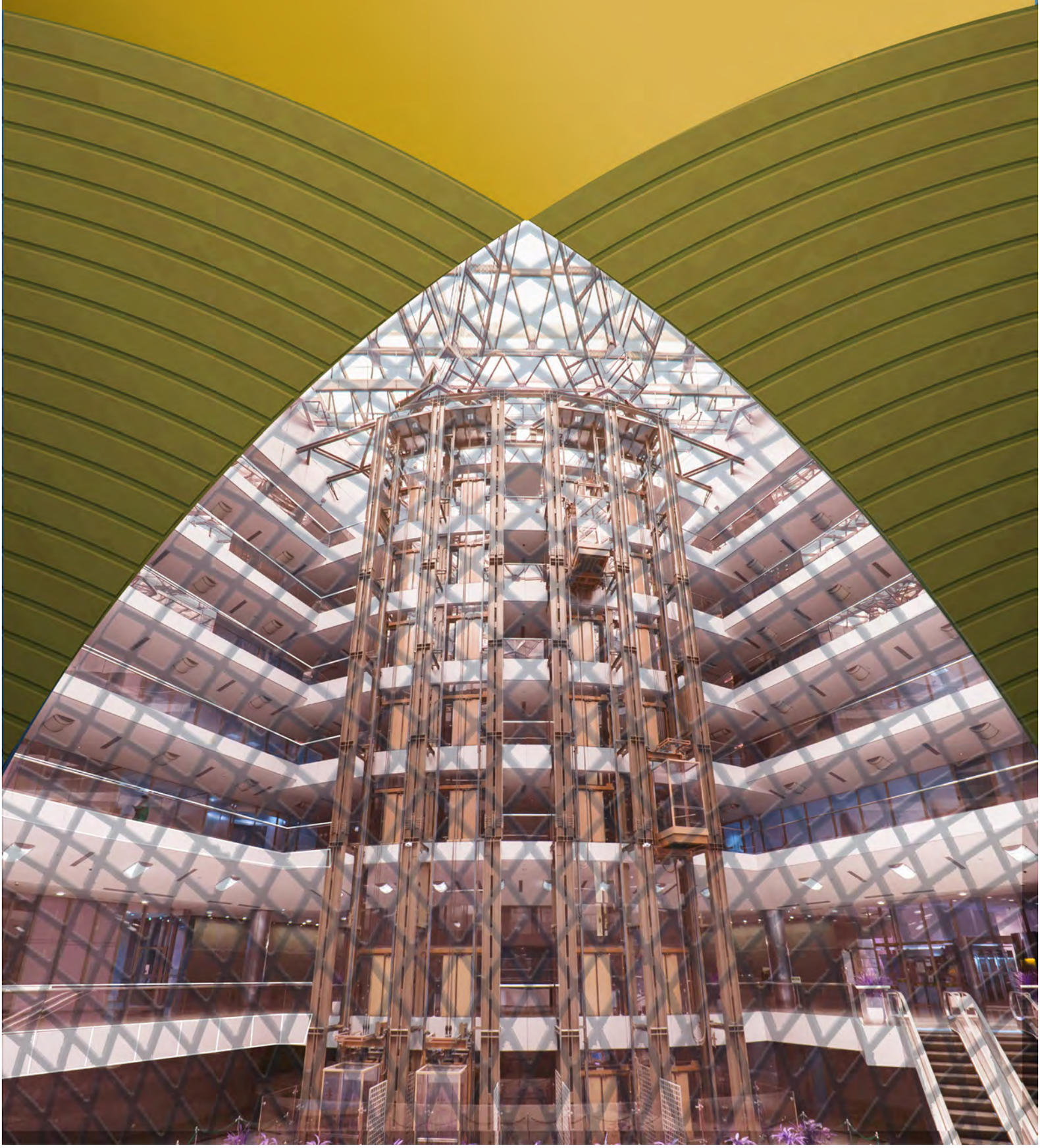
audit oversight board annual report 2020

Suruhanjaya Sekuriti
Securities Commission
Malaysia



Audit Oversight Board

ANNUAL REPORT 2020

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MISSION STATEMENT

Fostering high quality independent auditing to promote confidence in the quality and reliability of audited financial statements of public-interest entities and schedule funds in Malaysia

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Chairman's Message

I am pleased to present the *Annual Report of the Securities Commission Malaysia's (SC) Audit Oversight Board* (AOB) for the year ended 31 December 2020. This is my first Annual Report as Chairman of the AOB since I assumed the role from Dato' Gumuri Hussain in December 2020. I have served as a Member of the AOB since January 2020 and hence been given the opportunity to familarise with its strategic goals, initiatives and operations for purposes of discharging the mandate set by the SC.

The year 2020 has been a challenging year on many fronts. In addition to grave health and safety concerns, the global pandemic arising from the COVID-19 virus has given rise to a degree of uncertainty on the economy in Malaysia and globally.

Despite the ongoing challenges created by the pandemic, auditors, Audit Committees (AC) and regulators remain responsible for ensuring high-quality independent auditing to promote confidence in the quality and reliability of audited financial statements of public-interest entities (PIEs) and schedule funds. In this respect, the AOB continues to reinforce its regulatory expectations on the AOB registrants through its three key functions – registration and recognition, inspection and enforcement.

The AOB closely monitored the impact of the COVID-19 pandemic on the financial reporting of PIEs that operate in the Malaysian capital market and reminded the auditors that audit quality should not be compromised despite the challenges being faced. The AC and Those Charged with Governance (TCWG) are primarily responsible for overseeing the public-listed companies (PLC) financial reporting process and ensure reliable audited financial information is provided to users of the financial statements for informed decision-making. To facilitate the ACs and TCWG to discharge their responsibilities during these unprecedented times, the AOB highlighted areas of focus that require deeper scrutiny.

The AOB further fine-tuned its inspection plan in 2020. In addition to its planned onsite inspections, the AOB also conducted off-site inspections and introduced more extensive off-site monitoring and thematic reviews on specific areas of concern arising from the impact of COVID-19 and the Movement Control Order (MCO) on the audited financial statements and auditors' reports. This was done via deeper analysis of PLCs audited financial statements and the auditors' reports via increased utilisation of data analytics.

CHALLENGES IN MEETING REGULATORY OBLIGATIONS

A very pressing issue faced by the audit profession this year was the challenge in meeting their regulatory obligations. The various lockdown measures (e.g. MCO, Conditional Movement Control Order, etc.) made it difficult for auditors to access their respective clients' books and records. These instances have resulted in delay in the finalisation of audit engagements and meeting regulatory requirements in respect of financial reporting.

The AOB took cognisance of the difficulties faced by auditors and announced measures to ease their burden. This was to facilitate the affected firms to better focus their attention and resources to address the various audit challenges faced due to the COVID-19 outbreak. The measures included deferring the commencement of the AOB's inspections, extending the timeline for auditors to submit their remedial action plans as well as extending the timeline for the implementation and completion of their remedial action plans. The AOB also extended the deadline for payment of their annual registration fees. In addition, the AOB also deferred the implementation of the audit transparency reporting for selected firms, to year 2021.

The AOB took cognisance of the difficulties faced by auditors and announced measures to ease their burden. This was to facilitate the affected firms to better focus their attention and resources to address the various audit challenges faced due to the COVID-19 outbreak.

AOB'S ENFORCEMENT PROCESSES

In 2020, the AOB took six enforcement actions on auditors and audit firms that had failed to comply with the auditing standards. The AOB's enforcement philosophies are firmly rooted in the principles of proportionality and efficiency. The AOB's enforcement actions commensurate with the severity and impact of the findings regardless of the size of the audit firms.

While the AOB uses its enforcement actions to send a strong signal to the auditors on the importance of upholding audit quality, the AOB is also cognisant of the challenges faced by audit firms in respect of capacity building and continuous enhancement of their knowledge capabilities. In this regard, the AOB announced a one-off training subsidy of RM30,000 per firm for existing registered firms of the AOB with less than 10 audit partners. The AOB provided inputs to the Malaysian Institute of Certified Public Accountants (MICPA) to develop certain of its approved training programme that is aimed at addressing common areas of audit weakness within audit firms, which the AOB encountered during its inspection. The training programme not only focused on technical knowledge but also emphasised on practical implementation of audit and accounting standards.

As in the previous years, the AOB continues to face legal challenges initiated by the auditors against actions taken by the AOB. The AOB recognises that legal challenges against its decisions are inevitable and views these instances as an opportunity to ensure that the AOB's processes and procedures are continuously robust and sound. The AOB wishes to stress that the process of continuous improvement represents one of the key cornerstones for the AOB in consistently coming to fair and appropriate enforcement action.

ACKNOWLEDGEMENT

I am particularly honoured to present this year's Annual Report because on 1 April 2020, the AOB marked its 10th anniversary. Over the decade, the AOB has grown to be a trusted and respected audit regulator in the region. The AOB's key achievements over the past decade are presented in Part 2 of the Annual Report. The AOB's achievements would not have been possible without the steadfast leadership of the previous Chairman, Dato' Gumuri Hussain and the diligence and unwavering commitment of the Board Members.

Dato' Gumuri Hussain concluded his statutory term on 23 November 2020 and retired after serving the SC for 16 years in various capacities. Dato' Gumuri was appointed as an AOB Board Member in 2012 and has been instrumental in guiding the AOB to achieve its mandate to promote high-quality independent audit.

I am also certain that the collective experience and knowledge of the newly appointed Board Members, namely Puan Salmah Bee Mohd Mydin, Puan Nor Azimah Abdul Aziz and Dato' Seri Ahmad Johan Mohammad Raslan will help guide the AOB through the uncertain and challenging times ahead.

The events of 2020 and adjusting to the new norm will certainly influence our regulatory and development agenda moving forward. The management team has been instrumental to ensure that the AOB achieved its mandate. I would like to express my gratitude for their outstanding efforts despite the challenges and uncertainty faced this year.

Dato' Anantham Kasinather

PART

01

FOSTERING HIGH QUALITY INDEPENDENT AUDITING IN THE CAPITAL MARKET

PART 01 FOSTERING HIGH QUALITY INDEPENDENT AUDITING IN THE CAPITAL MARKET

INTRODUCTION

The AOB, established pursuant to the *Securities Commission Malaysia Act 1993* (SCMA), supports the SC in its regulation on auditors of PIEs and schedule funds for purpose of promoting investors' confidence in the quality and reliability of audited financial statements of PIEs and schedule funds.

The AOB is vigilant over emerging issues and global developments in financial reporting and auditing that would have an impact on its operating environment and stakeholders. The AOB continuously re-evaluates its priorities and focus areas to ensure that it is responsive to these changes.

The COVID-19 crisis and economic uncertainty, together with challenges faced by the auditors of the PLCs and schedule funds have influenced the AOB's agenda moving forward. This included a deeper analysis of PLCs' audited financial statements and the auditors' reports with an increase utilisation of data analytics and thematic reviews on specific areas of concern arising from the impact of COVID-19 and the MCO on the audited financial statements and auditors' reports. The AOB will continue to develop and strengthen its audit oversight framework.

REGISTRATION OF AUDIT FIRMS AND INDIVIDUAL AUDITORS

The AOB's oversight activities include the registration and recognition of auditors of PIEs and schedule funds. The number of audit firms and individual auditors registered with the AOB as of 31 December 2020 is listed in Table 1. As of 31 December 2020, the number of registered audit firms has reduced from 43 to 38. However, there have been no major changes to the number of registered individual auditors.

The AOB noted that the decrease in the number of firms was due to its condition of registrations introduced in August 2018. The AOB tightened the conditions of registration to improve and strengthen the audit firm's internal capacity and governance. The registration conditions provided an avenue for the audit firms to restructure their practices to be better equipped to audit PIEs and schedule funds.

As of 31 December 2020, there were 38 registered audit firms, which audited 1,184 PIEs and 1,149 schedule funds.

The number of audit firms and individual auditors registered with the AOB as well as the number of PIEs and schedule funds audited for the last five years is presented in Table 2.

TABLE 1

Registered and recognised auditors as of 31 December 2020

Profile of audit firms	No. of audit firms	No. of individual auditors	No. of PIE audit clients	% of total market capitalisation	No. of schedule fund audit clients	% of total net asset value
Registered audit firms						
Partnerships with 10 or more audit partners	8	221	896	95.32%	1,113	98.65%
Partnerships with 5 – 9 audit partners	19	84	223	3.62%	8	0.05%
Partnerships with fewer than 5 audit partners	11	34	65	1.02%	28	1.30%
Sub total	38	339	1,184	99.96%	1,149	100%
Recognised foreign audit firms	4	13	5	0.04%	-	-
Total	**42**	**352**	**1,189**	**100%**	**1,149**	**100%**

Source: AOB

TABLE 2

Registered and recognised auditors from 2016 to 2020

Profile of audit firms	2020	2019	2018	2017	2016
Registered audit firms	38	43	53	49	51
Registered individual auditors	339	337	366	334	325
Recognised foreign audit firms	4	4	3	5	6
Recognised foreign individual auditors	13	12	9	17	19
No of PIEs	1,189	1,179	1,171	1,155	1,149
No of Structured Funds	1,149	1,100	1,042	1,023	1,021

Source: AOB

RECOGNITION OF FOREIGN AUDIT FIRMS AND INDIVIDUAL AUDITORS

As of 31 December 2020, four foreign audit firms and 13 foreign individual auditors were recognised by the AOB. Collectively, they audited five foreign incorporated companies, which are listed on Bursa Malaysia.

A foreign audit firm applying for recognition with the AOB has to be an internationally affiliated network firm, with effective technical support from its network firm. Simultaneously, the foreign audit firm's monitoring quality control framework must be effective and supervised by a monitoring partner. The foreign audit firm must also undergo periodic peer review conducted by its network firm to safeguard quality control issues.

When considering applications for recognition, the AOB works closely with the independent audit regulators in the foreign auditors' home countries to assess the fit and properness of the foreign audit firms. At a minimum, these audit firms are required to comply with international auditing and quality control standards.

In addition, the AOB takes into consideration whether these audit firms are subjected to regular inspection by the foreign independent audit regulators. The specific findings from these inspections are assessed as part of the fit and proper assessment, and if necessary, additional recognition conditions are imposed to ensure high quality audit.

The recognition framework is continuously reviewed and refined to encourage capacity building of foreign auditors to enhance their quality control framework and deliver consistent quality audits.

COMPLIANCE WITH THE AOB'S CONDITION OF REGISTRATION

The AOB wishes to remind auditors that pursuant to section 31O of the SCMA, the AOB may, upon registration and thereafter impose such conditions as it deems necessary. The AOB may also, arising from its monitoring, observations and inspection findings, amend and/or impose new or additional conditions on auditors from time to time. The AOB views the registration and recognition conditions as an important measure to set regulatory expectations on audit quality and capacity building. The registration and recognition conditions are also aimed to improve and strengthen the audit firm's internal capacity and governance over audit partners.

The registration and recognition conditions applicable to the AOB registrants are set out in the AOB's *Handbook for Registration and Recognition*.

The AOB is also empowered to impose additional conditions of registration for specific audits in situations where there have been serious audit quality issues noted on an individual auditor and/or audit firm arising from an inspection. The additional conditions of registration is an interim measure pending the conclusion of the enforcement proceedings in respect of such issues. In these situations, the AOB views the imposition of these additional conditions as a necessary measure to safeguard the public interest by mitigating any risk to the capital market.

Continuous compliance with the AOB's conditions of registration and recognition is mandatory for as long as the registration or recognition remains valid. If an auditor contravenes or fails to comply with any conditions of registration and recognition, the AOB is empowered under the SCMA to initiate and administer a broad range of actions against the auditor under section 31Z of the SCMA and/or any action under section 31Q of the SCMA.

DEVELOPMENT AND IMPLEMENTATION OF STANDARDS AND REGULATIONS

Since its establishment in 2010, the AOB has consistently monitored the development of auditing standards both at the international and local fronts. In line with the AOB's mission to foster high-quality independent auditing to promote confidence in the quality and reliability of the audited financial statements of PIEs and schedule funds in Malaysia, the AOB has been involved in the standard-setting via its involvement in the Malaysia Institute of Accountant's (MIA) Auditing and Assurance Standards Board (AASB) and Ethics Standards Board (ESB) as an observer.

These platforms are important avenues to facilitate mutual understanding between the AOB, the industry and the profession concerning perceptions and challenges with current and emerging issues. The AOB is also able to provide input on areas of concern in line with efforts to strengthen and influence audit quality.

In 2020, the AOB shared its views on draft pronouncements issued by the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) as listed in Table 3.

Proposed ISA 600 (Revised), Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)

Respondents to the IAASB Invitation to Comment on 'Enhancing Audit Quality in the Public Interest: A Focus on Professional Scepticism, Quality Control and Group Audits', which was issued in December 2015, generally viewed that IAASB should take measures to address the main issues related to group audits. The IAASB approved a project proposal to revise ISA 600 and quality control standards in December 2016.

Since the revisions to ISA 600 were dependent on the revisions made to other foundation standards such as ISQC 1[1], ISA 220[2], and ISA 315[3] (Revised), the IAASB had prioritised the revisions to other foundation standards and resumed the project to revise ISA 600 in January 2019 with the progress of other foundation standards.

The proposed changes to ISA 600 are aligned with the amendments made in the quality management standards, proposed ISA 220 (Revised) and consistent with the requirements and application materials in ISA 315 (Revised 2019) and ISA 330[4]. Key changes in the proposed ISA 600 (Revised) are summarised in Diagram 1.

TABLE 3

AOB comments on draft pronouncements

Comments submitted to	Draft Pronouncements
IAASB	• Proposed ISA 600 (Revised) Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)
IESBA	• Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers • Proposed Revisions to the Non-Assurance Services Provisions of the Code • Proposed Revisions to the Fee-Related Provisions of the Code

[1] ISQC 1, *Quality Control for Firms that Performs Audits and Reviews of Financial Statements and Other Assurance and Related Services.*
[2] ISA 200, *Quality Control for an Audit of Financial Statements.*
[3] ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment.*
[4] ISA 330, *The Auditor's Responses to Assessed Risks.*

DIAGRAM 1

KEY CHANGES IN THE PROPOSED ISA 600 (REVISED)

Only applicable to **audit of group financial statements**

Highlights the importance of **professional scepticism** and **professional judgement** in a group audit engagement

Introduction of **Risk-Based Approach**

- Group engagement team shall take responsibility to:
  - **Identify** and **assess risks of material mis-statement** of group financial statements; and
  - **Nature, timing** and **extent** of **further audit procedures** to be performed.
- **Group engagement partner** is **responsible** for direction and supervision of **component auditors** and the **review of component auditors' work.**
- **Removed** the requirements to **identify significant components** and **type of work to be performed.**

Restrictions on access to people and information

- **Differentiate** between restrictions on access:
  - **Outside the control of group management**; and
  - **Imposed by group management.**
- **Extensive examples** on how group engagement team may be able to overcome restrictions on access.
- **New requirement** to document significant matters related to **access to people and information**, and how those matters were addressed.

Source: IAASB exposure draft on Proposed ISA 600 (Revised) Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)

The AOB commends the commitment of the IAASB to establish stronger linkages in the proposed ISA 600 (Revised) to other ISAs. To further enhance these efforts, the AOB views that a linkage to the ISA 450 Evaluation of Misstatements Identified During the Audits should be added to Paragraph 44 (c) of the proposed ISA 600 (Revised).

Addressing the Objectivity of Engagement Quality Reviewers

Respondents of the IAASB's exposure draft on *Proposed International Standard on Quality Management (ISQM) 2, Engagement Quality Reviews* generally agree that threats to the objectivity of an engagement partner when stepping into an Engagement Quality Reviewers (EQR) role are significant and needs to be mitigated.

In January 2020, the IESBA issued an exposure draft on *Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers* (Code). The exposure draft proposes guidance on the application of the conceptual framework in the Code, which includes examples on different types of threats to objectivity that an individual appointed as an EQR needs to consider.

The AOB views that the cooling-off requirement of an EQR should be prescriptive in the Code, which is in line with the partner rotation rules. The IESBA, an independent standard-setting board that develops ethical standards and other pronouncements for professional accountants, should take the lead to address the objectivity of EQR.

A breach of the cooling-off requirements of an EQR is equivalent to a breach of independence requirements under the Code. Independence is fundamental to an audit engagement, and the AOB strongly believes that breaches relating to ethical standards should not be tolerated.

Non-Assurance Services and Fee-Related Provisions of the Code

In response to stakeholders' concerns on auditors' independence and multi-disciplinary business model of firms that includes the provision of audit services together with consulting and advisory services, the IESBA issued exposure drafts on Proposed Revisions to the Non-Assurance Services (NAS) Provisions of the Code and Proposed Revisions to the Fee-Related Provisions of the Code in January 2020.

These two exposure drafts addressed the threats to independence, especially on the proportion of fees for services other than audit, to audit fees and improved communications and disclosure of fee-related matters to Those Charged with Governance (TCWG) and the public.

The proposed key changes to NAS provisions summarised in Diagram 2, is targeted to achieve consistent implementation of the NAS provisions in the Code across the firms and jurisdictions.

DIAGRAM 2

PROPOSED KEY CHANGES TO THE NAS PROVISIONS OF THE CODE

PIE audit clients

Prohibits provision of NAS if it creates a **self-review threat to independence**

Enhanced clarity about relevance of materiality, resulted in **material qualifier being removed** when determining the permissibility of NAS

New requirement to strengthen firm's communication with TCWG to introduce **pre-approval by TCWG** for provision of NAS

Clarify the circumstances that firms and network firms may or may not provide a NAS to an audit or assurance client

Strengthen provisions to **identify and evaluate threats,** including threats created when multiple NAS is provided to the same audit client

More robust provisions to **address threats**, when safeguards are not available to reduce threats to an acceptable level

Stricter requirements when providing **certain tax** and **corporate finance advice services** to an audit client

Source: IESBA exposure draft on Proposed Revisions to the Non-Assurance Services Provisions of the Code

Below is a summary of proposed key amendments to Fee-Related Provisions of the Code and the AOB's comments.

PROPOSED KEY AMENDMENTS TO THE FEE-RELATED PROVISIONS OF THE CODE AND THE AOB'S COMMENTS

Include **guidance** to evaluate the **level** of **threats** created when **fees are paid by an audit** or **assurance client** and **safeguards** to address the threats

Enhance the **fee dependency** on **PIEs** and **non-PIEs audit clients**, including establishing a **threshold** to address threats in the case of **non-PIE audit clients**

Enhance **transparency** on **fee-related information** for **PIE audit clients** to assist TCWG and the public in forming their views about the firm's independence

Provide **guidance** to evaluate and address the threats to independence created when a **large proportion** of total fees charged by the firm or network firms to an **audit client** is for **services other than audit**

Provision of services other than audit should not influence the level of audit fee

Require the firm to **cease to be the auditor for a PIE audit client** if circumstances of **fee dependency continue beyond five years**

AOB's views

- **Permissible ratio** of fees for services other than audit to the audit fee should be defined in the Code, to ensure consistent application across audit firms

- A firm must obtain **full payment of all overdue fees** from its audit or assurance clients **before** a report is issued to safeguard the independence of the firm

- A **shorter period** (i.e. less than five years) for a firm to cease to be the auditor for a PIE audit client if circumstances of fee dependency exist
- **No exception** should be given to allow the firm to continue to be the auditor after five consecutive years of fee dependency

Source: IESBA exposure draft on Proposed Revisions to the Fee-Related Provisions of the Code

IAASB Auditor Reporting Post-Implementation Review: Stakeholder Survey

The IAASB invited its stakeholders to share their experience and feedback on the *New and Revised Auditor Reporting Standards* issued in 2015. The *New and Revised Auditor Reporting Standards* were effective for audits of financial statements for the periods ending on or after 15 December 2016.

The new audit reporting model, which the AOB viewed as a game changer, has been an area of focus for its inspection activities. To monitor the implementation of the *New and Revised Auditor Reporting Standards,* the AOB had conducted thematic reviews on the communications of Key Audit Matters (KAM) in the *Enhanced Auditor's Report* (EAR) in 2017 and 2018. The AOB has also completed a joint study on *Enhanced Auditor's Report - A Review of First Year Implementation in Malaysia (EAR Study)* in 2018 with the Association of Chartered Certified Accountants (ACCA) and MIA.

Main area of the IAASB Auditor Reporting Post-Implementation Review's stakeholder survey is on the communications of KAMs. Highlights of the AOB's responses are summarised below.

HIGHLIGHTS OF THE AOB'S RESPONSES TO THE IAASB'S AUDITOR REPORTING POST-IMPLEMENTATION REVIEW: STAKEHOLDER SURVEY

Communications of KAMs

- **Usefulness of KAMs was downgraded** by elements of **'boiler plating'**
- **Description of KAM**s should be **more granular** to assist in the identification of the matter being raised as KAMs and specific audit procedures taken to address the KAMs

Enhanced engagement among the **auditor** and **management** or **TCWG**

Increased engagement partner's involvement in the audit and **strengthened** the **audit process** through more visible audit partner involvement in discussion with audit ACs

Description on the outcome of audit procedures or key observations with respect to KAMs will provide **added clarity** and a **degree of closure** for a **KAMs**

STRENGTHENING THE FOCUS ON RISK-BASED INSPECTIONS

Maintaining Oversight and Audit Quality in Challenging Times

Building on the developments and outcomes achieved in the past decade, the AOB continues to conduct inspections on auditors of PIEs and schedule funds to promote high-quality audits that result in reliable financial statements being made available to the market.

In planning and carrying out its inspection programme, the AOB adopts a risk-based approach that takes into consideration its risk assessment of the audit firms. This includes the market capitalisation of the audit firms' PLC clients and specific areas of concern.

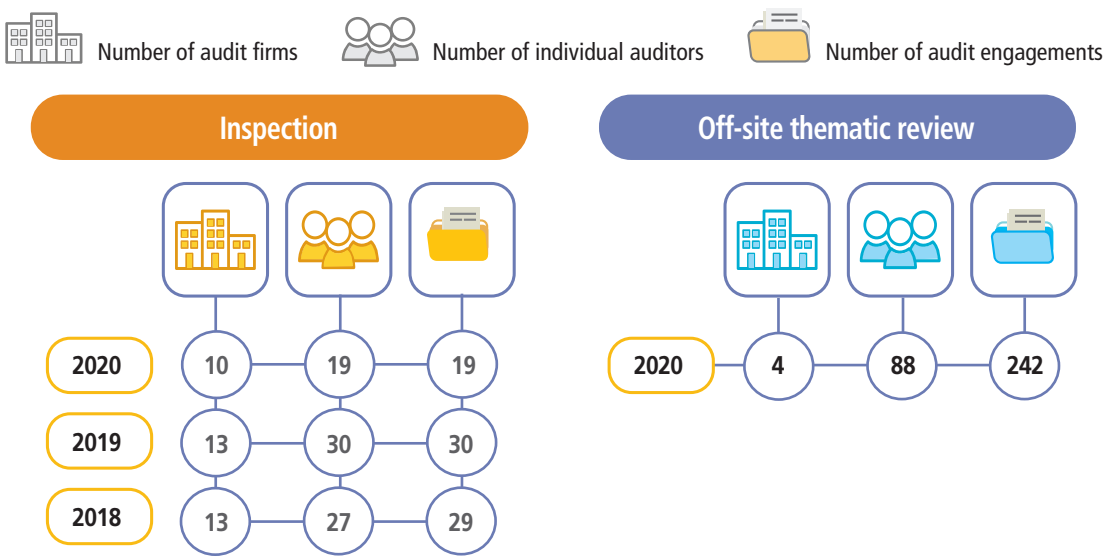
The fast-changing environment underlined the importance of having an inspection programme that is adaptable and responsive. With the onset of the COVID-19 pandemic and the MCO put in place in 2020, the AOB was faced with challenges of completing the inspection programme within a reduced timeline and working under strict standard operating procedures with the temporary suspension of physical meetings.

To ensure continuous compliance with auditing standards and regulations even under such unprecedented circumstances, the AOB's inspection approach in 2020 was adapted to complement its existing planned inspection with off-site monitoring and thematic reviews which included the following:

- Deeper analysis of PLCs' audited financial statements and the auditors' reports with an increase utilisation of data analytics; and
- Thematic reviews on specific areas of concern arising from the impact of COVID-19 and the MCO on audited financial statements and auditors' reports.

Further details on the inspection programme, including common inspection findings, results of thematic reviews, trend analysis and remediation efforts taken by inspected audit firms will be presented separately in the 2020 *AOB Annual Inspection Report.*

2020 INSPECTION AND OFF-SITE THEMATIC REVIEW COVERAGE



Source: AOB

2020 INSPECTION HIGHLIGHTS

Conducted regular inspections with a focus on going concern, impairment of assets and changes in accounting standards.

Adapted the inspection approach to include offsite monitoring and thematic reviews. This was done to complement the reduced regular inspection coverage and to determine the impact of the COVID-19 pandemic and the MCO on the financial reporting of PLCs and the related audited financial statements as well as the auditors' reports. The reviews included:

- Analysis of audit opinion;
- Analysis of COVID-19 disclosures; and
- Thematic review of specific key areas.

SPECIFIC KEY AREAS COVERED UNDER THE OFFSITE MONITORING AND THEMATIC REVIEW

- AUDIT OPINION
- GOING CONCERN
- KEY AUDIT MATTERS
- POST BALANCE SHEET/ SIGNIFICANT EVENTS DISCLOSURE
- IMPAIRMENT
- DISCLOSURES

Source: AOB

Issued an AOB Alert in April 2020 on the importance of ensuring high quality audit on financial reports of PIEs in light of the challenges posed by the pandemic. The AOB Alert was also issued to communicate the focus areas that auditors and ACs of PIEs may wish to pay particular attention to when discharging their responsibilities.

Actions taken in 2020 included the following:

- Specific remedial measures imposed on certain inspected audit firms and individual auditors; and
- Referrals of certain inspected audit firms and individual auditors, including Engagement Quality Control Reviewer (EQCR), to the Enforcement Department due to the severity of inspection findings.

Issued the *2019 AOB Annual Inspection Report* to provide insights into the observations arising from the AOB's inspections at both firm and engagement levels in 2019. The AOB distributed the report to all PLCs to facilitate and enhance the communication and engagement between the Board of Directors and/or the ACs and their auditors.

Updates on Annual Transparency Reporting for Audit Firms

In 2019, the AOB introduced the framework for *Annual Transparency Reporting* for audit firms to promote greater transparency and stronger accountability for audit quality among audit firms. Under this framework, audit firms who have more than 50 PIE audit clients and total market capitalisation of the audit firms' PIE clients of above RM10 billion for two consecutive years are required to produce the annual transparency report commencing from the year 2020.

While the *Annual Transparency Reporting* can contribute meaningfully towards the strengthening of the financial ecosystem in Malaysia, the AOB had to defer the implementation to year 2021 in light of the COVID-19 pandemic. This is to allow the firms to focus their immediate attention on maintaining high standards of audit quality while managing the unprecedented challenges posed by the pandemic. Furthermore, the AOB hopes that with this deferment, the audit firms would be able to commit the required resources to produce good quality transparency reports.

In 2021, the audit firms that meet the aforementioned criteria will be required to produce and share their *Annual Transparency Report* with the ACs of their PIE audit clients. In 2022, the *Annual Transparency Report* is to be made public on the respective firms' website within four months after the audit firm's fiscal year-end.

FOCUSED AND IMPACTFUL ENFORCEMENT OUTCOME

The AOB's enforcement actions seek to achieve its primary goals in holding the auditors accountable for their work and impose sanctions against those who breach laws and regulations. The enforcement actions also seek to deter others from engaging in similar non-compliant behaviour and mitigate any risk of future audit failures.

The AOB's enforcement actions are not restricted to individual auditors involved in the audit work but are also intended to hold the respective audit firm and its leadership accountable for the behaviour of their individual partners and engagement performance.

In addition to initiating enforcement proceedings against engagement partners and EQCR for the findings noted in the audits performed, the AOB would not hesitate to initiate enforcement proceedings in relation to the audit firm's system of internal quality control particularly if there is evidence to suggest that the internal controls, structures, and processes of the firms had been compromised.

The desired outcome is to send a strong signal to the leadership of audit firms that it is their responsibility to establish and maintain a system of quality control that provides reasonable assurance that the firm and its personnel consistently comply and adhere to the relevant auditing and ethical standards as well as regulatory requirements.

In 2020, a total of six enforcement sanctions were imposed by the AOB. Sanctions imposed on the auditors in breach comprised monetary penalty and prohibition from accepting and auditing PIE for a period of time. Details of the enforcement actions taken in 2020 is presented in Table 4.

The AOB is mindful that for its enforcement actions to be an effective deterrence and to mitigate the risk to the capital market, actions need to be completed in a timely manner. In the past, due to the robustness of the enforcement proceedings, the cases were prioritised based on the risk to the capital market. The information on the number of outstanding cases as at 31 December 2020 is presented in Table 5.

TABLE 4

Enforcement actions taken in 2020 by types of sanction and parties in breach

	Type of Sanctions		
	Prohibition	Prohibition with monetary penalty	Monetary penalty
Audit firm	-	1	1
Engagement partner	-	1	2
EQCR	1	-	-
TOTAL	**1**	**2**	**3**

Source: AOB

The following actions were taken against audit firms and individual auditors for non-compliance with auditing standards and breach of the AOB's relevant requirements:

- A total of RM407,000 in penalties were imposed on two audit firms, one of which was a recognised audit firm and three individual auditors in their capacity as engagement partners in the audits of PIEs.
- The AOB continues to take action against EQCR for failures noted in the engagement quality control review process.
- An audit firm, engagement partner and EQCR were prohibited from accepting and auditing PIE and scheduled funds for 12 months. The AOB noted non-compliance with auditing standards on fundamental and basic audit procedures while auditing a PLC. The audit firm and the individual auditors filed an application for judicial review against the actions taken by the AOB. On 29 December 2020, the High Court granted an interim stay order to the audit firm and individual auditors. The matter is now pending court proceedings.

Further details on the AOB's enforcement actions are available on the SC's website via this link: https://www.sc.com.my/aob/aobs-sanctions

TABLE 5

Number of outstanding cases as at 31 December 2020

Year	No. of referral for enforcement proceedings	No. of cases completed prior to 2020	No. of cases completed in 2020	No. of outstanding cases as at 31 December 2020
2017	1	-	1*	-
2018	8	8	-	-
2019	4	2	2	-
2020	5	-	1**	4
TOTAL	**18**	**10**	**4**	**4**

Source: AOB

* The case referred in 2017 was completed in 2020 due to the discovery of additional facts, which warranted the expansion of scope of the enforcement proceedings.

** The case was completed as at 31 December 2020 but is pending the conclusion of the appeal to the SC Board.

ENFORCEMENT PROCESSES OF THE AOB

The AOB Enforcement Framework

The AOB maintains a robust and comprehensive enforcement framework to ensure that its enforcement function is rooted in the principles of proportionality, efficiency and natural justice.

In carrying out its enforcement proceedings, the AOB is objective, impartial and thorough in its evaluation. There are also various levels of challenge process that the AOB undertakes internally to ensure that the enforcement actions are appropriate and consistent with its enforcement framework. The auditors are given numerous opportunities to explain, challenge and provide information to rebut the AOB's findings.

In determining the type of enforcement actions to be taken and to ensure that enforcement actions commensurate with the nature and seriousness of the breaches, the AOB takes into account among others, the conduct of the auditors, the impact to the capital market and any other mitigating factors. The AOB is guided by a robust and comprehensive enforcement framework to ensure that the enforcement actions taken is appropriate.

Appeal to the SC

Pursuant to section 31ZB of the SCMA, those aggrieved by the decisions of the AOB can appeal to the SC within 30 days from the date of the decision. The appeal process is independent of the AOB and is heard by an independent group of individuals, i.e. the SC Board members. Furthermore, the auditors are given another opportunity to be heard in the form of written submission including the provision of any additional supporting documents or discovery of new facts to justify the appeals. The appeal process goes through similar rigour of internal challenges like the AOB's enforcement proceedings. The SC has the power to affirm, set aside, or substitute the decisions of the AOB.

Legal Remedies

As part of a statutory body exercising its regulatory functions under the securities laws, the AOB's decision can be subject to judicial review by the aggrieved parties. In this regard, aggrieved parties have initiated legal challenges against the SC on the decisions imposed by the AOB in 2020.

These applications involved challenges to the AOB's powers in enforcing its rules and regulations and how the AOB conducts its enforcement proceedings. While the AOB recognises that legal challenges are inevitable, the AOB views that the outcome of these proceedings would further reinforce the fact that its enforcement process is robust and comprehensive with adequate safeguards in place.

KEY STAKEHOLDERS ENGAGEMENT AT A GLANCE 2020

The AOB's continuous involment with the International Forum of Independent Audit Regulators (IFIAR) and the ASEAN Audit Regulators Group (AARG) facilitated mutual sharing of audit oversight at both global and regional level. In 2020, the AOB continued to reach out to various stakeholders.

APRIL 14

MICPA Outreach on 'Information Gathering for the Proposed Amendments to Audit Evidence'

The AOB participated in an outreach on the 'Information Gathering for the Proposed Amendments to Audit Evidence'. The outreach was organised by the Malaysian Institute of Certified Public Accountants (MICPA) in support of the IAASB's Binitiative.

MAY 22

Roundtable on NAS and Fee-Related Independence

The AOB participated in a roundtable organised by the MIA's ESB. The roundtable was aimed to strengthen the NAS and the fee-related independence provisions of the *International Code of Ethics for Professional Accountants (including International Independence Standards).*

MAY 26

IFIAR Virtual Meeting: Global Public Policy Committee call with IFIAR Membership on COVID-19

The AOB participated in an online briefing hosted by Global Public Policy Committee (GPPC) on the challenges and initiatives of the GPPC in relation to the COVID-19 situation. The session focused on experiences and issues for financial reporting from the impact of COVID-19.

JUNE 11

International Organisations of Securities Commissions Asia Pacific Hub Webcast Series: Implications of COVID-19

The International Organization of Securities Commissions (IOSCO) Asia Pacific Hub conducted a series of webcasts relating to policy, regulatory and other issues arising from COVID-19. The webcast was intended to provide insights and perspectives, and facilitate an exchange of views in this area. During these webcast series, the AOB moderated a session on the Implications of COVID-19 on Financial Reporting and Disclosures.

JUNE
15

Webinar on the Impact of COVID-19 on Audit and Assurance – Practical Guidance and Considerations.

The AOB together with other industry players provided guidance on practical issues faced by auditors in a webinar organised by the ACCA. The webinar was aimed to address the impact of COVID–19 on Audit.

AUGUST
13

MIA Webinar Series: Interview for Approved Liquidators

The AOB facilitated a session during the MIA Webinar Series on the Interview for Approved Liquidators. This seminar was specifically designed to prepare candidates for the interview process. Participants were briefed on the overall interview process, and scope, as well as the expectations of the interviewers from various regulators.

SEPTEMBER
10-25

IFIAR: Virtual Meetings with the Largest Audit Firms

IFIAR conducted a series of virtual meetings with the global Chief Executive Officers and Head of Audit of the six largest audit firm networks. The AOB participated in discussions on the approach taken by the network's global team to monitor and enhance audit quality, particularly in the time of the COVID-19 pandemic.

OCTOBER
21

IFIAR Virtual Regulatory Session: Member Regulatory Updates Session

The AOB participated in a virtual session organised by IFIAR for its member to hear about regulatory developments from the UK Financial Reporting Council and the Dutch Financial Markets Authority.

NOVEMBER
12

IFIAR Webinar Session: Going Concern

The IFIAR's Webinar Session on Going Concern was hosted by the Financial Markets Authority and the New Zealand External Reporting Board. The AOB participated in the session, which covered the requirements of going concerns and case studies on the going concern challenges faced by certain industries.

NOVEMBER
30

Business Sentiment Focus Group

The Business Sentiment Focus Group hosted by the CPA Australia was aimed to promote an informative dialogue between business leaders in the corporate environment. The AOB was invited to participate in the focus group on the Malaysian Business Sentiment Survey led by Monash University Malaysia in collaboration with CPA Australia. The focus group highlighted pressing challenges in the minds of business leaders in managing their companies in the Malaysian economic and business environment, how it affects business leaders and the strategies they employ to overcome these challenges.

DECEMBER
10

The Role of ACs in Ensuring Organisational Integrity, Risk and Governance

As one of the presenters in the AC programme organised by the Institute of Corporate Directors Malaysia, the AOB shared its insights on best practices, current trends and issues that are relevant to the ACs. In addition, the AOB shared its oversight activities, which included auditors' selection considerations and the AOB's findings arising from its monitoring and thematic review on the impact of COVID-19.

PART

02 A DECADE OF AUDIT OVERSIGHT

PART 02 A DECADE OF AUDIT OVERSIGHT

2010 – 2020

2010

APR Establishment of the AOB with the appointment of Datuk Nik Mohd Hasyudeen Yusoff as Executive Chairman

AUG The AOB conducted its first inspection

SEP The AOB joined the global audit regulation community as a member of IFIAR

DEC 83 audit firms and 310 individual auditors were registered with AOB

The ASEAN Audit Regulators Group (AARG) first began meeting informally in 2010 and had its first formal meeting in January 2011. Participants of the meeting were audit regulators from Malaysia, Singapore, Thailand and Indonesia. The objectives were to share best practices in audit regulation and inspections, engage collectively on common issues with audit firms regionally to promote improvement in audit quality and encourage the development of independent audit oversight among the other ASEAN countries. AARG has since extended to include jurisdictions such as Laos, Vietnam, Cambodia, Myanmar and Philippines as observers.

2011

MAR Continued oversight activities with inspections of mid-tier and smaller firms

SEP Amendments to *Securities Commission Act 1993* now include, among others, recognition of foreign auditors

Approval of *IFIAR Core Principles*, which was a major building block for global regulatory co-operation and open dialogue with major network firms. This has led to the AOB's involvement in ASEAN region initiatives where the first meeting with the leadership of the Big Four Audit Firms from Malaysia, Singapore and Thailand was conducted

2012

MAR Report on the *Observance of Standards and Codes on Accounting and Auditing* (ROSC AA) recognised the role of the AOB in ensuring and enforcing compliance to auditing and ethical standards

OCT Established official collaboration in audit oversight with Japan Financial Services Agency and Certified Public Accountants and Auditing Oversight Board

NOV The AOB completed its first two enforcement actions against individual auditors

2013

JAN Hosted the second AARG Inspection Workshop, subsequent to the first workshop held in Singapore in 2012

JUN European Commission (EC) recognised Malaysia's public oversight, quality assurance, investigation and penalty systems for auditors and audit entities as equivalent to those of Member states of the European Union (EU)

DEC Established the Committee to Strengthen the Accountancy Profession in relation to the ROSC AA

IFIAR comprises independent audit regulators from 52 jurisdictions representing Africa, North America, South America, Asia, Oceania and Europe, to improve audit quality globally. The IFIAR MMoU aims to facilitate co-operation in the exchange of information among members. The AOB joined 21 other leading international independent audit regulators to sign the MMoU at the IFIAR 2017 Plenary Meeting held on 4 April 2017 in Tokyo, Japan.

2014

MAR The AOB hosted the eighth IFIAR Inspection Workshop and the Inaugural IFIAR Regional Outreach Event

JUN The first time AOB sanctioned an audit firm

OCT Formed the Financial Reporting Quality Task Force comprising representatives from SC, MIA, MICPA and academia to identify and promulgate measures to improve the quality of financial reporting and auditing of PIEs

2015

JUN The AOB appointed as Secretariat of a Steering Committee to identify issues and risks in relation to the implementation of the *New Auditor's Report*

JUL Amendments to Part IIIA of the SCMA, which extended the AOB's purview to include schedule funds and certain works performed by Reporting Accountants

SEP Introduction of Small Firm Initiative to encourage capacity building among smaller firms and understand challenges faced by them

DEC The AOB revoked the registration of an audit firm and two of its partners for the first time

2016

JUN Introduction of the Annual Declaration submissions to guide its registrants towards regular internal reporting and monitoring within respective firms

AUG EC recognised the AOB's requirements as being comparable to that complied by its EU counterparts for the purpose of transferring audit working papers and other related documents of inspection and investigation

NOV Appointment of Dato' Gumuri Hussain as the Executive Chairman of the AOB after the former Executive Chairman, Datuk Nik Mohd Hasyudeen Yusoff concluded his statutory term in March 2016

2017

FEB The AOB hosted the fifth AARG Inspection Workshop and Inaugural Collaborative Workshop between the World Bank and AARG

APR Signed the IFIAR MMoU concerning Co-operation in the Exchange of Information for Audit Oversight

NOV Enhancements to Part IIIA of SCMA to include appointment of Executive Officer and re-designation of Executive Chairman to Non-Executive Chairman. Alex Ooi Thiam Poh was appointed as the Executive Officer and Dato' Gumuri Hussain was re-designated as the Non-Executive Chairman of AOB

DEC First year publication of the *AOB Annual Inspection Report*

A DECADE OF AUDIT OVERSIGHT

2018

MAR

The AOB scored the highest (tied-in with Australia) and recognised as the leader for quality of accounting, audit standards and practices, and the effectiveness of audit regulation in *Corporate Governance Watch 2018* by Asian Corporate Gorvernance Association

AUG

The AOB took action against EQCR partner involved in inspected engagement with severe findings for the first time

New Criteria for Registration with the AOB:

- A minimum of three audit partners in the audit firm must be registered
- Audit partners registered with the AOB are attached to only one audit firm at all times
- The EQCR must be from the same audit firm as the auditor of the PIE or schedule fund
- Continued registration of an audit firm with the AOB is subject to the audit firm having at least one PIE or schedule fund audit client in the last 24 months

2019

JUL

The AOB hosted AARG Annual Meeting

AUG

Introduction of the *Annual Transparency Reporting* for audit firms

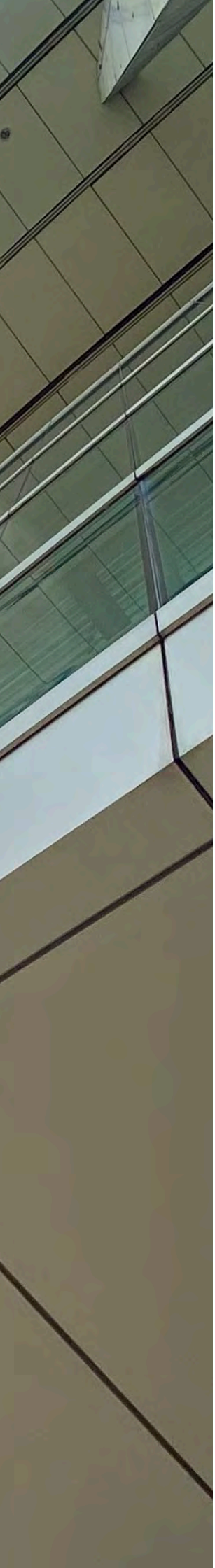
2020

JUN

Joint initiative by the SC and Securities Industry Development Corporation to provide training grants to industry players as part of capacity-building initiatives

DEC

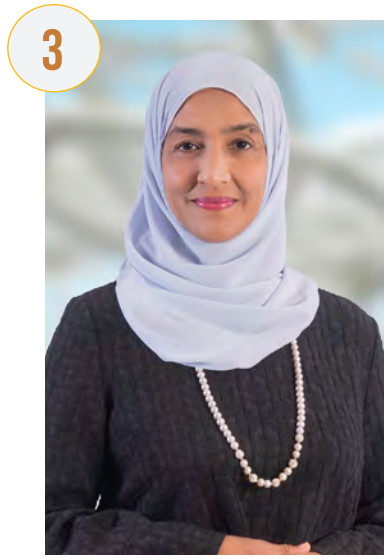
Appointment of Dato' Anantham Kasinather as the Non-Executive Chairman of the AOB, replacing Dato' Gumuri Hussain who retired from the Board on 23 November 2020



PART

03 STATEMENTS

MEMBERS OF THE AUDIT OVERSIGHT BOARD



1. Dato' Anantham Kasinather
2. Alex Ooi Thiam Poh
3. Salmah Bee Mohd Mydin
4. Hew Ee-Lu
5. Nor Azimah Abdul Aziz
6. Dato' Darawati Hussain
7. Dato' Seri Ahmad Johan Mohammad Raslan

1 DATO' ANANTHAM KASINATHER

Appointed Non-Executive Member on 1 January 2020
Appointed Non-Executive Chairman on 1 December 2020

Dato' Anantham Kasinather brings with him more than 40 years of experience in the private sector, having started his career at Skrine & Co practising in various areas of commercial law. He appeared as Counsel in the High Court of Malaya, Sabah and Sarawak, Court of Appeal and Federal Court of Malaysia. Dato' Anantham is now a consultant for Sree Harry & Co.

Dato' Anantham has also served in the judiciary where he was appointed as a Judge of the High Court of Malaya in 2009 and elevated to the Court of Appeal in 2010 before retiring from judicial service in May 2014.

Dato' Anantham was appointed as an Arbitrator with the Asian International Arbitration Centre in 2010. At present, he is one of four Representatives of the Government of Malaysia to the Permanent Court of Arbitration. Dato' Anantham is a Fellow of the Malaysian Institute of Arbitrators.

Dato' Anantham holds a Bachelor of Law LLB (Hons) from the National University of Singapore.

2 ALEX OOI THIAM POH

Appointed Executive Officer on 24 November 2017

Alex Ooi is currently the Executive Officer of the Audit Oversight Board. Prior to joining the AOB, he was an audit partner with BDO Malaysia.

Alex is currently a Council Member of the MIA. Alex serves as an Adviser to the MASB and also represents the SC as a member in the Audit Licensing Committee of the Ministry of Finance Malaysia. He is an Observer to the AASB, and the ESB of MIA.

He was previously the Malaysia Divisional President of CPA Australia in 2013 and 2014. He was involved in the Financial Reporting Standards Implementation Committee (FRSIC), Capital Market Advisory Committee and Education Committee of MIA. He was a former member of the Public Practice Advisory Board of CPA Australia in Melbourne, Australia. He is currently a Member of CPA Australia's Ethics and Professional Standards Centre of Excellence.

Alex is a Chartered Accountant of MIA, Fellow member of CPA Australia, and a member of the Institute of Chartered Accountants in England and Wales (ICAEW) and MICPA. He holds a Bachelor of Economics (Accounting) from Monash University, Australia.

3 SALMAH BEE MOHD MYDIN

Appointed Non-Executive Member on 1 January 2020

Salmah Bee Mohd Mydin is the Executive Director, Market Development at the SC. She is responsible for corporate strategy and planning as well as markets and products.

An important focus of the SC's agenda is the longer-term sustainable development of the broader capital market. Salmah manages a team responsible for formulating the overall planning and strategy for the SC, driving initiatives to enhance market efficiency, vibrancy, liquidity and competitiveness and its impact to the capital market. She is a board member of the Finance Accreditation Agency, the Malaysian Venture Capital and Private Equity Development Council, and Penjana Kapital.

Given her vast experience in investigation, intermediaries' supervision, market surveillance, authorisation and licensing, as well as development and policy formulation, Salmah has been involved in numerous external engagements including public sector transformation initiatives, the Attorney-General's Chambers and the Anti-Corruption Agency (now known as the Malaysian Anti-Corruption Commission). She also served as a member of the SC's Capital Market Compensation Fund Corporation and the Financial Stability Committee of the Labuan Financial Services Authority (Labuan FSA).

Previously Salmah was a business reporter with *The STAR* Publications. She has a Bachelor of Arts (Management and Business Studies) from the University of Liverpool and a Masters in Science (Public Policy and Management) from the University of London.

4 HEW EE-LU

Appointed Non-Executive Member on 5 October 2018

Hew Ee-Lu has nearly 20 years of regulatory experience in the financial services sector. As a trained actuarist in Bank Negara Malaysia (BNM), he was involved in developing capital adequacy frameworks for the insurance sector, implementing reforms in the domestic insurance market and providing technical advice on various policy initiatives. In his current role as the Director of the Insurance and Takaful Supervision Department, he is responsible for the prudential supervision of insurers and *takaful* operators in Malaysia.

He is a Fellow of the Institute of Actuaries UK and is a graduate from the London School of Economics and Cass Business School.

5 NOR AZIMAH ABDUL AZIZ

Appointed Non-Executive Member on 1 January 2020

Nor Azimah Abdul Aziz is the Chief Executive Officer of the Companies Commission of Malaysia (SSM). She joined SSM as General Manager of the Corporate Policy, Planning and Development Department in 2003. She was the Deputy Chief Executive Officer (DCEO) of Regulatory and Enforcement and thereafter, DCEO of Corporate Services between 2016 and 2020.

She started her career in 1992 as an Advocate and Solicitor and served as a Law Lecturer at the Accounting Department, Faculty of Business and Management, National University of Malaysia (UKM). During her tenure with UKM, she was seconded to the Regulatory and Standards Department of the MIA.

Nor Azimah has extensive experience in law reform initiatives and oversaw the passing of significant pieces of legislations under the purview of SSM among others the *Companies Act 2016*, *Interest Schemes Act 2016*, *Limited Liability Partnership Act 2012* and *Companies (Amendment) Act 2007.* She is currently a Board Member of the Malaysian Anti-Corruption Academy's Certification of Certified Integrity Officers and the Financial Reporting Foundation. She is also a member of the Approval and Implementation Committee of the Iskandar Regional Development Authority.

Nor Azimah obtained her Law Degree from the Institut Teknologi MARA (now UiTM) and her Master of Laws (LLM in Business Law) from the University of Wales, Aberystwyth, UK.

6 DATO' DARAWATI HUSSAIN

Appointed Non-Executive Member on 1 April 2016

Dato' Darawati Hussain is a Director of Syalin Sdn Bhd. She was formerly a Director of Fund and Co-Investor Relations under the Group Strategy and Strategic Investments Division, CIMB Group (Malaysia).

She has over 30 years of experience in corporate finance, asset management and private equity. She was previously a European equities portfolio manager for a US fund management company with assets under management worth US$70 billion.

Dato' Darawati serves as a Non-Independent Non-Executive Director of Mesiniaga Bhd, and as an Independent Board Member of Magna Prima Bhd and Malaysia Venture Capital Management Bhd. She is also an Independent Director of several of RHB Group's Asset Management subsidiaries and other private limited companies.

Dato' Darawati was the former Chairperson of the Malaysia Venture Capital and Private Equity Association and a committee member of the Malaysia Venture Capital Development Corporation under the SC.

She holds a Bachelor in Economics and Accountancy from Durham University, UK and a Master in Business Administration from the London Business School, UK. She is also a Chartered Financial Analyst.

7 DATO' SERI AHMAD JOHAN MOHAMMAD RASLAN

Appointed Non-Executive Member on 1 December 2020

Dato' Seri Ahmad Johan Mohammad Raslan was Executive Chairman of PwC Malaysia from 2004 to 2012, when he retired from the firm.

Dato' Seri Johan has held several government appointments, including Chairman of the Financial Reporting Foundation from 2003 to 2009, membership of BNM's Financial Stability Executive Committee from 2009 to 2012, and membership of the International Advisory Panel of the Labuan FSA from 2004 to 2012.

In corporate governance, Dato' Seri Johan helped the SC to roll-out the first *Malaysian Code of Corporate Governance* (Code) to the market in year 2000. Since then, he has assisted with drafting certain later versions of the Code.

Currently, Dato' Seri Johan is an Independent Non-Executive Director and AC chairman of Sime Darby Property Bhd. He has been a board member of two other PLCs in the past. He is currently a board member of the Institute of Corporate Directors Malaysia.

Dato' Seri Johan holds a Bachelor of Economics (Honours) in Economics and Accountancy from the University of Hull, UK. He is a Fellow of the ICAEW and a member of the MIA and MICPA. Dato' Seri Johan served as MICPA President from 2011 to 2012.

STATEMENT ON GOVERNANCE

About the Audit Oversight Board

The AOB was established under Part IIIA of the SCMA and its mandate is to assist the SC in discharging its regulatory function by regulating auditors of PIEs and schedule funds to promote confidence in the quality and reliability of the audited financial statements. The AOB also exercises oversight over any person who prepares a report with respect to financial information of PIEs and schedule funds, in relation to the capital market activities.

The AOB's responsibilities, powers and authorities are defined in Part IIIA of the SCMA.

Board Members

The Board of AOB comprises a Non-Executive Chairman, an Executive Officer and five other Non-Executive Members who are appointed by the SC. The Non-Executive Members are representatives from the regulators, namely BNM and SSM, the legal profession, auditing profession and the private sector. The Executive Officer is responsible for the day-to-day administration of the AOB.

Profiles of the Board Members of the AOB are set out on pages 28 to 32.

The Non-Executive Chairman of the AOB is appointed for a term of three years and the Non-Executive Members of the Board are appointed for a term of two years. Both the Non-Executive Chairman and Non-Executive Members are eligible for reappointment upon the completion of their term.

A person is disqualified from holding the office of a Board member of the AOB if he or she is:

- Convicted of an offence under the law;
- Declared a bankrupt;
- Fails to attend three consecutive Board meetings without leave; or
- Not capable of discharging his or her duties.

The SCMA requires a Board member to manage the conflict of interest by disclosing his or her interest in any matter under discussion by the Board. Once a disclosure is made, he or she:

- Shall neither take part nor be present in any deliberation or decision of the Board or its committees; and
- Shall be disregarded for the purposes of constituting quorum of the Board or its committees, relating to the matter.

Responsibilities of the Board

The Board is responsible for assisting the SC in discharging its functions under the SCMA.

The responsibilities of the Board include:

- Implement policies and programmes to ensure an effective audit oversight system in Malaysia;
- Register or recognise auditors of PIEs or schedule funds for the purposes of the SCMA;
- Direct MIA to establish or adopt, or by way of both, the auditing and ethical standards to be applied by auditors;
- Conduct inspections and monitoring programmes on registered auditors to assess

the degree of compliance of auditing and ethical standards;

- Impose appropriate sanctions against registered auditors who fail to comply with auditing and ethical standards;
- Co-operate with relevant authorities in formulating and implementing strategies to enhance standards of financial disclosures of PIEs or schedule funds;
- Liaise and co-operate with oversight bodies outside Malaysia to enhance the standing of the auditing profession in Malaysia and internationally;
- Carry out inspection on a person who prepares a report in relation to financial information of PIEs or schedule funds, related to the capital market activities, as may be required to be prepared under the securities laws or guidelines issued by the SC; and
- Perform such other duties or functions as necessary or appropriate to promote high professional standards of registered auditors and to improve the quality of audit services provided by registered auditors.

Board Meetings

There were nine Board meetings held in 2020. Three members are required to be present for quorum.

The attendance record of the Board members is set out in Table 1.

TABLE 1

ATTENDANCE AT BOARD MEETINGS

Board member	Number of meetings attended
Dato' Gumuri Hussain (Former Non-Executive Chairman)*	8/8
Dato' Anantham Kasinather (Non-Executive Member) (Non-Executive Chairman)**	8/9
Alex Ooi Thiam Poh (Executive Officer)	9/9
Salmah Bee Mohd Mydin	8/9
Hew Ee-Lu	9/9
Nor Azimah Abdul Aziz	7/9
Dato' Darawati Hussain	7/9
Dato' Seri Ahmad Johan Mohammad Raslan***	1/1

Source: AOB

** Retired on 23 November 2020*
*** Appointed as Non-Executive Chairman on 1 December 2020*
**** Appointed on 1 December 2020*

Committee of the AOB

The Registration Committee was established to deliberate matters regarding the registration or recognition of auditors with the AOB. Where applicable, the Registration Committee will make recommendations to the Board on matters that require further deliberation and decision.

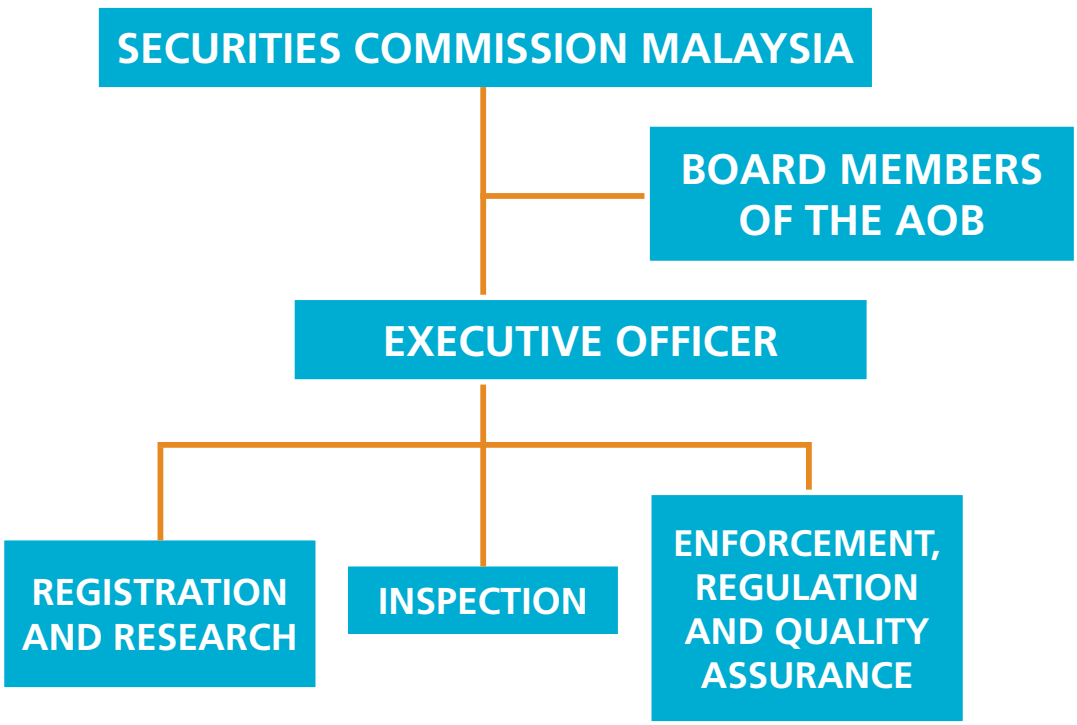
There were four Committee meetings held in 2020. The Chairman of the AOB chairs the meetings of the Committee. In his absence, a member of the Board who sits on the Committee can be tasked to take on this responsibility.

TABLE 2

MEMBERS OF THE REGISTRATION COMMITTEE	
Dato' Gumuri Hussain*	3/3
Dato' Anantham Kasinather**	1/1
Alex Ooi Thiam Poh	4/4
Dato' Darawati Hussain	4/4

* Retired on 23 November 2020
** Appointed on 1 December 2020

ORGANISATIONAL STRUCTURE



Source: AOB

FINANCIAL STATEMENTS

for the year ended
31 December 2020

AUDIT OVERSIGHT BOARD

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Note	2020 RM	2019 RM
Assets			
Current assets			
Other receivables	4	7,488	80,596
Other investments	5	1,870,955	1,611,517
Cash and bank balances	6	621,314	434,577
Total assets		2,499,757	2,126,690
Reserves			
Funds from the SC	7.1	30,516,438	27,516,438
Accumulated deficit	7.2	(28,836,981)	(25,769,937)
Total reserves	7	1,679,457	1,746,501
Current liabilities			
Other payables and accruals	8	820,300	380,189
Total liabilities		820,300	380,189
Total reserves and liabilities		2,499,757	2,126,690

The notes set out on pages 41 to 52 are an integral part of these financial statements.

Syed Zaid Albar
Chairman
Securities Commission Malaysia

Alex Ooi Thiam Poh
Executive Officer
Audit Oversight Board

Date: 25 January 2021

AUDIT OVERSIGHT BOARD

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 RM	2019 RM
Registration fees		3,043,000	3,098,500
Finance income from fixed deposits		51,891	75,737
Penalty imposed		347,751	848,000
		3,442,642	4,022,237
Operating expenditure			
Administrative expenses	9	(6,509,686)	(5,347,979)
Deficit before tax		(3,067,044)	(1,325,742)
Tax expense	10	-	-
Deficit and total comprehensive expense for the year		(3,067,044)	(1,325,742)

The notes set out on pages 41 to 52 are an integral part of these financial statements.

AUDIT OVERSIGHT BOARD

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	Funds from the SC RM	Accumulated deficit RM	Total RM
At 1 January 2019	25,516,438	(24,444,195)	1,072,243
Funds from the SC	2,000,000	-	2,000,000
Deficit and total comprehensive expense for the year	-	(1,325,742)	(1,325,742)
At 31 December 2019 / 1 January 2020	27,516,438	(25,769,937)	1,746,501
Funds from the SC	3,000,000	-	3,000,000
Deficit and total comprehensive expense for the year	-	(3,067,044)	(3,067,044)
At 31 December 2020	30,516,438	(28,836,981)	1,679,457
	Note 7.1	Note 7.2	Note 7

The notes set out on pages 41 to 52 are an integral part of these financial statements.

AUDIT OVERSIGHT BOARD
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 RM	2019 RM
Cash flows from operating activities		
Deficit before tax	(3,067,044)	(1,325,742)
Adjustment for:		
Finance income	(51,891)	(75,737)
Operating deficit before changes in working capital	(3,118,935)	(1,401,479)
Change in other receivables	80,596	(62,546)
Change in other payables and accruals	440,111	331,189
Net cash used in operating activities	(2,598,228)	(1,132,836)
Cash flows from investing activities		
Interest received	44,403	65,994
Increase in other investments	(259,438)	(881,493)
Net cash used in investing activities	(215,035)	(815,499)
Cash flows from financing activity		
Funds from the SC	3,000,000	2,000,000
Net cash from financing activity	3,000,000	2,000,000
Net increase in cash and bank balances	186,737	51,665
Cash and bank balances at 1 January	434,577	382,912
Cash and bank balances at 31 December	621,314	434,577

The notes set out on pages 41 to 52 are an integral part of these financial statements.

AUDIT OVERSIGHT BOARD
NOTES TO THE FINANCIAL STATEMENTS

1. General

On 1 April 2010, the Securities Commission Malaysia (SC) established the Audit Oversight Board (AOB) under Section 31C of the *Securities Commission Malaysia Act 1993* (SCMA). The AOB was established for the purposes set out in Section 31B of the SCMA, namely:

a. to promote and develop an effective and robust audit oversight framework in Malaysia;

b. to promote confidence in the quality and reliability of audited financial statements in Malaysia;

c. to regulate auditors of public-interest entities or schedule funds; and

d. to exercise oversight over any person who prepares a report in relation to financial information, required to be submitted under the securities laws, guidelines issued by the Commission or the rules of a stock exchange, of a:

   (i) PIE or schedule fund;
   (ii) non-public interest entity seeking approval to become a public-listed company or a corporation listed on the stock exchange; or
   (iii) non-schedule fund seeking approval to become a schedule fund.

To facilitate the abovementioned purposes, a fund known as the AOB Fund was established under Section 31H of the SCMA. The AOB Fund is administered by the SC. The SC provides administrative and accounting support to the AOB Fund and the accounts are kept separately from the accounts of the SC in accordance with Section 31L(5) of the SCMA. The SC will continue to provide the necessary financial support to the AOB for the foreseeable future.

2. Basis of preparation

(a) Statement of compliance

The financial statements of the AOB have been prepared in accordance with the *Malaysian Financial Reporting Standards* (MFRSs) and *International Financial Reporting Standards* (IFRS).

The following are accounting standards, interpretations and amendments of the MFRSs that have been issued by the Malaysian Accounting Standards Board but have not been adopted by the AOB:

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 June 2020

- Amendment to MFRS 16, *Leases – COVID-19 Related Rent Concessions*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments: Recognition and Measurement*, MFRS 7, *Financial Instruments: Disclosures*, MFRS 4, *Insurance Contracts* and MFRS 16, *Leases – Interest Rate Benchmark Reform – Phase 2*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2022

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to MFRS 3, *Business Combinations – Reference to the Conceptual Framework*
- Amendments to MFRS 9, *Financial Instruments (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to Illustrative Examples accompanying MFRS 16, *Leases (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to MFRS 116, *Property, Plant and Equipment – Proceeds before Intended Use*
- Amendments to MFRS 137, *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract*
- Amendments to MFRS 141, *Agriculture (Annual Improvements to MFRS Standards 2018–2020)*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2023

- MFRS 17, *Insurance Contracts*
- Amendments to MFRS 101, *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current*

MFRSs, interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The AOB plans to apply the abovementioned accounting standards, interpretations and amendments:

- from the annual period beginning on 1 January 2021 for the amendment that is effective for annual periods beginning on or after 1 June 2020;

- from the annual period beginning on 1 January 2021 for those amendments that are effective for annual periods beginning on or after 1 January 2021;

- from the annual period beginning on 1 January 2022 for those amendments that are effective for annual periods beginning on or after 1 January 2022, except for MFRS 3, *Business Combinations*, MFRS 116, *Property, Plant and Equipment* and MFRS 141, *Agriculture* which are not applicable to the AOB; and

- from the annual period beginning on 1 January 2023 for the accounting standard and amendments that are effective for annual periods beginning on or after 1 January 2023, except for MFRS 17, *Insurance Contracts* which is not applicable to the AOB.

The initial application of the abovementioned accounting standards, amendments and interpretations is not expected to have any material financial impact to the current period and prior period financial statements of the AOB.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis other than as disclosed in Note 3.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the AOB's functional currency. All financial information is presented in RM.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and have been applied consistently by the AOB, unless otherwise stated.

(a) Financial instruments

(i) Recognition and initial measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the AOB becomes a party to the contractual provisions of the instrument.

A financial asset or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance.

An embedded derivative is recognised separately from host contract where the host contract is not a financial asset, and accounted for separately if, and only if, the derivative is not closely related to the economic characteristics and risks of the host contract and the host contract is not measured at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host.

(ii) Financial instrument categories and subsequent measurement

Financial assets

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the AOB changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

Amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely for payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Finance income and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Finance income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets (see Note 3(c)) where the effective interest rate is applied to the amortised cost.

Financial liabilities

Amortised cost

Financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method.

Finance expense is recognised in the profit or loss. Any gains or losses on derecognition are also recognised in the profit or loss.

(iii) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or are transferred, or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) is recognised in the profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. A financial liability is also derecognised when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the AOB currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and liability simultaneously.

(b) Cash and bank balances

Cash and bank balances consist of balances and deposits with licensed banks which have an insignificant risk of changes in fair value with original maturities of 3 months or less, and are used by the AOB in the management of its short-term commitments. For the purpose of the statement of cash flows, cash and bank balances are presented net of restricted deposits, if any.

(c) Impairment

Financial assets

The AOB recognises loss allowances for expected credit losses on financial assets measured at amortised cost. Expected credit losses are a probability-weighted estimate of credit losses.

The AOB measures loss allowances at an amount equal to lifetime expected credit loss, except for cash and bank balances for which credit risk has not increased significantly since initial recognition, which are measured at 12-month expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the AOB considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the AOB's historical experience and informed credit assessment and including forward-looking information, where available.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the asset, while 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating expected credit losses is the maximum contractual period over which the AOB is exposed to credit risk.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

At each reporting date, the AOB assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or full) to the extent that there is no realistic prospect of recovery. This is generally the case when the AOB determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the AOB's procedures for recovery of amounts due.

(d) Leases

(i) Definition of a lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the AOB assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- as a lessee, it has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- as a lessee, it has the right to direct the use of the asset. The AOB has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the AOB has the right to direct the use of the asset if either the AOB has the right to operate the asset; or the AOB designed the asset in a way that predetermines how and for what purpose it will be used.

(ii) Recognition and initial measurement

As a lessee

The AOB has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The AOB recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(e) Other Income

(i) Registration fees

Registration fees are recognised as it accrues in profit or loss.

(ii) Finance income

Finance income is recognised as it accrues using effective interest method in profit or loss.

(f) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid if the AOB has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) State plans

The AOB's contributions to statutory pension funds are charged to profit or loss in the year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(g) Contingencies

Contingent assets

When an inflow of economic benefit of an asset is probable where it arises from past events and where existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, the asset is not recognised in the statements of financial position but is being disclosed as a contingent asset. When the inflow of economic benefit is virtually certain, then the related asset is recognised.

(h) Fair value measurement

Fair value of an asset or a liability is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

4. Other receivables

	2020 RM	2019 RM
Prepayments	-	62,546
Finance income receivable	7,488	18,050
	7,488	80,596

5. Other investments

Other investments are in relation to deposits placed with licensed banks with original maturity of 3 months or more. The deposits placed with licensed banks earned income at a rate of 1.80% per annum (2019: 3.05% per annum).

The deposits arose from monies received from penalty imposed and are restricted to be utilised for planning and implementing in relation to the accounting and auditing profession.

During the financial year, the AOB has approved an one-off training subsidy for existing registered firms of the AOB with less than 10 audit partners, of up to RM30,000 per firm for Approved Training Programmes conducted by the Malaysian Institute of Certified Public Accountants amounting to RM900,000. Out of this total amount, RM460,950 has been utilised during the financial year. In prior financial year, total costs amounted to RM35,570 were utilised for capacity-building initiatives.

6. Cash and bank balances

	2020 RM	2019 RM
Cash and bank balances	621,314	434,577

7. Total reserves

	Note	2020 RM	2019 RM
Funds from the SC	7.1	30,516,438	27,516,438
Accumulated deficit	7.2	(28,836,981)	(25,769,937)
Total reserves		1,679,457	1,746,501

7.1 Funds from the SC

	2020 RM	2019 RM
Contribution:		
At the beginning of the year	27,516,438	25,516,438
Additions	3,000,000	2,000,000
At the end of the year	30,516,438	27,516,438

7.2 Accumulated deficit

	2020 RM	2019 RM
At the beginning of the year	(25,769,937)	(24,444,195)
Deficit for the year	(3,067,044)	(1,325,742)
At the end of the year	(28,836,981)	(25,769,937)

8. Other payables and accruals

	Note	2020 RM	2019 RM
Amounts due to the SC	8.1	-	63,689
Other payables		800,300	144,000
Accruals		20,000	172,500
		820,300	380,189

8.1 The amount due to the SC was unsecured, interest free and repayable on demand.

9. Administrative expenses

	2020 RM	2019 RM
The administrative expenses consist of:		
Auditors' remuneration	20,000	20,000
Honorarium payment	70,846	12,180
Non-executive members' allowance	264,400	250,000
Other miscellaneous charges	520,736	345,279
Rental of office equipment	3,150	9,440
Staff costs	5,169,604	4,711,080
Training subsidy	460,950	-
	6,509,686	5,347,979

10. Tax expense

The SC was granted approval from the Minister of Finance to be exempted from taxation with effect from Year Assessment (YA) 2007 onwards. Accordingly, the AOB is tax-exempted.

11. Related parties

Identity of related parties

For the purpose of these financial statements, parties are considered to be related to the AOB if the AOB has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the AOB and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the AOB either directly or indirectly.

Lee Hishammuddin Allen & Gledhill (LHAG) is deemed to be a related party of the AOB by virtue of a Board Member of the SC is also a partner of LHAG.

Significant related-party transaction

The significant related-party transaction of the AOB is shown below:

	2020 RM	2019 RM
Related party		
Legal fees	(33,904)	(132,500)

The outstanding balance which arose from the transaction above was included in Note 8.

12. Financial instruments

12.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as amortised cost (AC):

	Carrying amount RM	AC RM
2020		
Financial assets		
Other receivables	7,488	7,488
Other investments	1,870,955	1,870,955
Cash and bank balances	621,314	621,314
	2,499,757	2,499,757
Financial liabilities		
Other payables and accruals*	(388,300)	(388,300)
2019		
Financial assets		
Other receivables*	18,050	18,050
Other investments	1,611,517	1,611,517
Cash and bank balances	434,577	434,577
	2,064,144	2,064,144
Financial liabilities		
Other payables and accruals*	(236,189)	(236,189)

* Exclude non-financial instruments

12.2 Gains arising from financial instrument

	2020 RM	2019 RM
Gains on:		
Financial assets at amortised cost	51,891	75,737

12.3 Financial risk management objectives and policies

The AOB is primarily exposed to liquidity risk in the normal course of the AOB's operations. As the AOB is administered by the SC, the AOB is subject to the SC's financial risk management policies.

12.4 Liquidity risk

Liquidity risk is the risk that the AOB will not be able to meet its financial obligations as they fall due. The AOB's exposure to liquidity risk arises principally from its various payables.

The AOB, via the SC, monitors and maintains a level of cash and bank balances deemed adequate to finance the AOB's operations and receives financial support from the SC to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

Maturity analysis

The table below summarises the maturity profile of the AOB's financial liabilities as at the end of the reporting period based on undiscounted contractual payments.

	Carrying amount RM	Contractual cash flow RM	Under 1 year RM
2020			
Financial liabilities			
Other payables and accruals	388,300	388,300	388,300
2019			
Financial liabilities			
Other payables and accruals	236,189	236,189	236,189

12.5 Market risk

Market risk is the risk that changes in market prices, such as interest rates, that will affect the AOB's financial position or cash flows.

12.5.1 Interest rate risk

The interest rate profile of the AOB's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	2020 RM	2019 RM
Fixed rate instruments		
Financial assets	1,870,955	1,611,517

Interest rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

The AOB does not account for any fixed rate financial assets at fair value through profit or loss, and the AOB does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

12.6 Fair values

The carrying amounts of cash and bank balances, other receivables, other payables and accruals reasonably approximate their fair values due to the relatively short-term nature of these financial instruments.

Fair value hierarchy has not been presented as there are no financial instruments carried at fair value nor those not carried at fair value for which fair value is disclosed as at the year ended 31 December 2020.

13. Fund management

The AOB's objective is to maintain adequate reserves to safeguard the AOB's ability to perform its duties and functions independently. The reserves are managed by the SC.

14. Contingencies

The AOB is of the opinion that the recognition of the following penalty imposed and corresponding receivable is not required, as the case is currently still ongoing.

Contingent asset

In previous financial year, the AOB has imposed 3 sanctions against an audit firm and its partners amounting to RM631,000 for breaching the AOB's registration condition imposed under Section 31O(3) of the SCMA.

The involved parties have applied to the High Court for judicial review on the AOB's decision. On 10 August 2020, the High Court quashed the sanctions imposed against the audit firm and its partners.

On 13 August 2020, the SC and AOB filed an appeal to the Court of Appeal to set aside the High Court decision. The matter is pending hearing in the Court of Appeal.

15. Authorisation of financial statements

The financial statements for the year ended 31 December 2020 were authorised by the SC for issuance and signed by the Chairman of the SC and Executive Officer of the AOB on 25 January 2021.

AUDIT OVERSIGHT BOARD
STATUTORY DECLARATION

I, **Vignaswaran A/L Kandiah**, the officer primarily responsible for the financial management of the Audit Oversight Board, do solemnly and sincerely declare that the financial statements set out on pages 37 to 52 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the *Statutory Declarations Act, 1960.*

Subscribed and solemnly declared by the abovenamed **Vignaswaran A/L Kandiah**, NRIC No. 561128-10-6171, at Kuala Lumpur in the Federal Territory on 25 January 2021.

.....

Vignaswaran A/L Kandiah
Officer

Before me:

25 JAN 2021
W 562
MOHAMMAD
ROSLAN BIN MUSTAFA
01.01.19 - 15.12.21
MALAYSIA

H-2-10,
Plaza Damas,
Jalan Sri Hartamas 1,
50480 Kuala Lumpur

INDEPENDENT AUDITORS' REPORT
TO THE AUDIT OVERSIGHT BOARD, SECURITIES COMMISSION MALAYSIA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the AOB, which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 37 to 52.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the AOB as at 31 December 2020, and of its financial performance and cash flows for the year then ended in accordance with *Malaysian Financial Reporting Standards* and *International Financial Reporting Standards*.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in *Malaysia and International Standards on Auditing*. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the AOB in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants (By-Laws) and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Responsibilities of Board Members of the SC for the Financial Statements

The Board Members of the SC are responsible for the preparation of financial statements of the AOB that give a true and fair view in accordance with MFRSs and IFRSs. The Board Members are also responsible for such internal control as the Board Members determine is necessary to enable the preparation of financial statements of the AOB that are free from material mis-statement, whether due to fraud or error.

In preparing the financial statements of the AOB, the Board Members of the SC are responsible for assessing the AOB's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board Members of the SC either intend to liquidate the AOB or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the AOB as a whole are free from material mis-statement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material mis-statement when it exists. Mis-statements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material mis-statement of the financial statements of the AOB, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material mis-statement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the AOB.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board Members of the SC.

- Conclude on the appropriateness of the Board Members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the AOB to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements of the AOB or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the AOB to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the AOB, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with the Board Members of the SC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Matter

This report is made solely to the SC, as a body, and for no other purpose. We do not assume responsibility to any other person for the content of this report.

……..

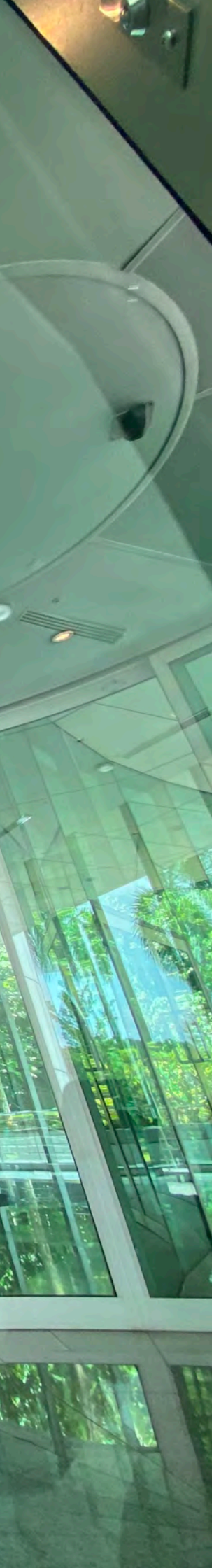
KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

……..

Foong Mun Kong
Approval Number: 02613/12/2022 J
Chartered Accountant

Petaling Jaya, Malaysia

Date: 25 January 2021



PART

04 OTHERS

PART 04 ACRONYMS AND ABBREVIATIONS

AARG	ASEAN Audit Regulators Group
AASB	Auditing and Assurance Standards Board
AC	Audit Committees
ACCA	Association of Chartered Certified Accountants
AOB	Audit Oversight Board
EAR	*Enhanced Auditors' Report*
ESB	Ethics Standard Board
EQCR	Engagement quality control review
EQR	Engagement Quality Reviewer
GPPC	Global Public Policy Committee
IAASB	International Auditing and Assurance Standards Board
ICAEW	Institute of Chartered Accountants in England and Wales
IESBA	International Ethics Standards Board for Accountants
IFIAR	International Forum of Independent Audit Regulators
ISA	*International Standards on Auditing*
ISQC	*International Standards on Quality Control*
KAM	Key Audit Matters
Labuan FSA	Labuan Financial Services Authority
MASB	Malaysian Accounting Standards Board
MCO	Movement Control Order
MFRS	*Malaysian Financial Reporting Standard*
MIA	Malaysian Institute of Accountants
MICPA	Malaysian Institute of Certified Public Accountants
NAS	Non Assurance Services
PIE	public-interest entity
PLC	public-listed company
SC	Securities Commission Malaysia
SCMA	*Securities Commission Malaysia Act 1993*
TCWG	Those Charged with Governance

DEFINITIONS

Auditor	An individual auditor or audit firm who is registered or recognised under section 31O of the SCMA as a registered auditor or recognised auditor of a PIE or schedule fund.
Big-Four Audit Firms	Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers.
Major Audit Firms	Audit firms with more than 10 partners and audit more than 50 PIEs clients with a total market capitalisation of above RM25 billion.
Movement Control Order	The Movement Control Order imposed by the Malaysian Government in March 2020 and the subsequent measures restricting movements.
Other Audit Firms	Audit firms other than Major Audit Firms.
Public-interest entity	Entity specified in Part 1 of Schedule 1 of the SCMA–

(a) a PLC or a corporation listed on the stock exchange;
(b) a bank licensed under the *Financial Services Act 2013*;
(c) an insurer licensed under the *Financial Services Act 2013*;
(d) a takaful operator licensed under the *Islamic Financial Services Act 2013*;
(e) an Islamic bank licensed under the *Islamic Financial Services Act 2013*;
(f) a person prescribed as a prescribed financial institution under section 212 of the *Financial Services Act 2013* or a person prescribed as a prescribed Islamic financial institution under section 223 of the *Islamic Financial Services Act 2013*;
(g) a developmental financial institution prescribed under the *Development Financial Institutions Act 2002*;
(h) a holder of the Capital Markets Services Licence for the carrying one of the regulated activities of dealing in securities, dealing in derivatives or fund management;
(i) an exchange holding company approved under the securities laws;
(j) an exchange approved under the securities laws;
(k) a central depository approved under the securities laws;
(l) a clearing house approved under the securities laws;
(m) a self-regulatory organisation recognised under the securities laws;
(n) a private retirement scheme administrator approved under the securities laws;

(o) a trade repository approved under the securities laws;
(p) the Capital Market Compensation Fund Corporation;
(q) any other person as the Minister may prescribe by order published in the *Gazette*.

Schedule fund

Fund specified in Part 2 of Schedule 1 of the SCMA:

(a) a private retirement scheme approved by the SC under the *Capital Markets and Services Act 2007* (CMSA);
(b) a unit trust scheme approved, authorised or recognised by the SC under the CMSA;
(c) any other capital market funds as may be specified by the SC.